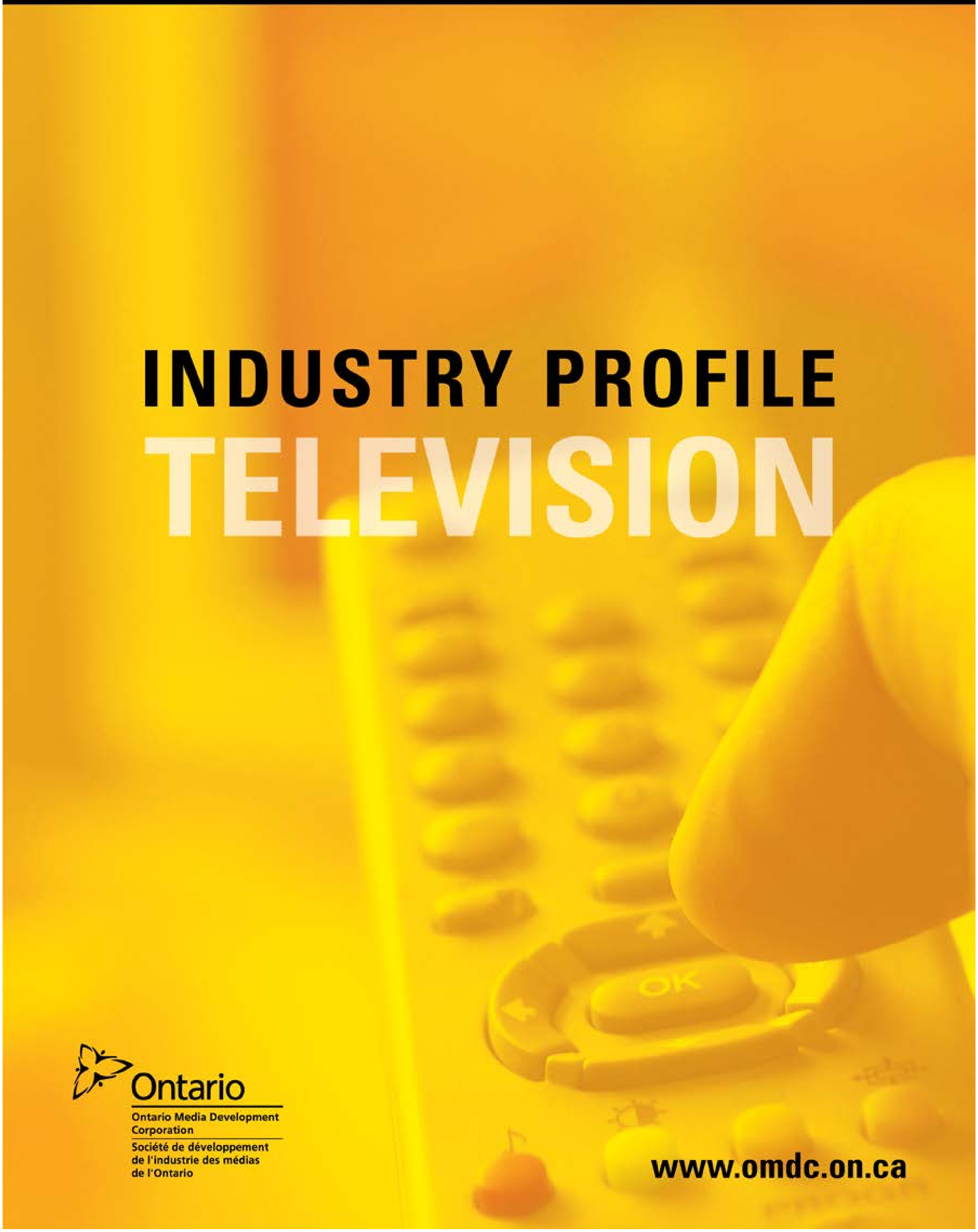
ONTARIO MEDIA DEVELOPMENT CORPORATION



INDUSTRY PROFILE
TELEVISION

Ontario

Ontario Media Development Corporation

Société de développement de l'industrie des médias de l'Ontario

www.omdc.on.ca

Introduction

Ontario's television production sector mainly comprises small- to medium-sized production companies, producing a combination of their own proprietary productions and foreign service productions with international partners. A large concentration of Canada's TV production companies and labour force is located in Ontario (specifically in the Greater Toronto Area).[1] Ontario's television production sector is the largest in Canada. The province is also home to world-class animation and visual effects studios, such as Arc Productions (formerly known as Starz Animation Toronto) and Mr. X.

Ontario's domestic television sector continues to perform well and Ontario producers are achieving success and receiving international recognition:

- Television production rose significantly in 2011, with the biggest increase seen in domestic television series spending which rose to $626.7 million in 2011 compared to $467.9 million in 2010—a 34% increase. This growth reflects the continuing success of domestic producers partnering with U.S. and international broadcasters.[2]
- Canadian co-produced dramas are currently attracting impressive audiences on U.S. cable television channels and selling widely internationally. Canadian production *Rookie Blue* continues to place in Canadian Top 30 most watched lists, and in 2012 is in its third season on Global in Canada and ABC in the U.S. and has been picked up for a fourth. The show is distributed to over 30 countries worldwide. Ontario-based Take 5 Productions had a strong debut of the co-produced series *The Borgias* on Showtime—the episode drew 1.06 million viewers and this series was one of Bravo's most watched series.[3]
- The computer animation and visual effects sector in Ontario is an important contributor to the overall screen-based production industry. Ontario animation studio Guru (*The Backyardigans*, *Babar*) produces award-winning original animated content. Their preschool-aged show *Justin Time* airs in the U.S., Latin America, Australia, Germany and Italy. The show launched in the U.S. on the PBS kids' channel Sprout in April of 2012 and airs on Disney Junior in Canada. Guru has successfully expanded the brand of *Justin Time* into book publishing, as U.S. publisher Immedium has licensed a series of books based on the adventure series.[4]

Industry Size and Economic Impact

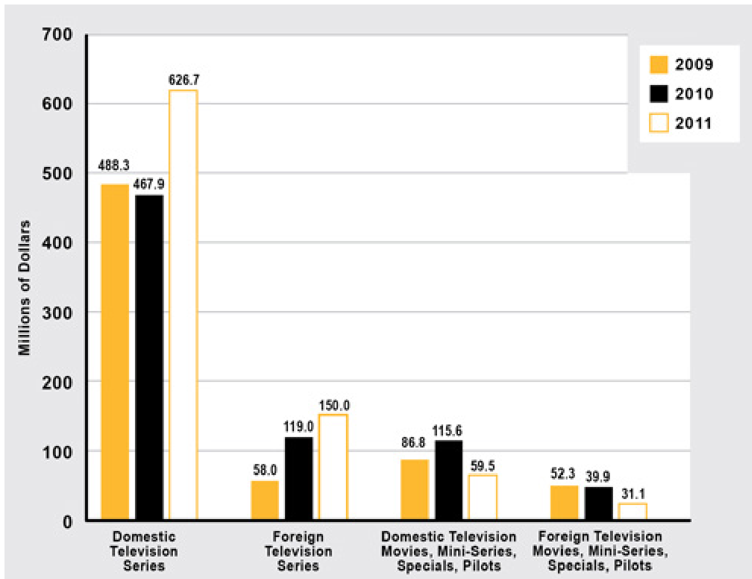
Employment and wages

- Ontario's film and television industry contributed $1.26 billion to the provincial economy in calendar 2011—an increase of $300 million over 2010, and the strongest performance in the province since OMDC started keeping records in 1986. This production activity accounted for almost 30,000 full-time direct and spin-off jobs.[5]
- Statistics Canada figures show that Canadian film, television and video production companies provided $686.1 million in salaries, wages and benefits to workers in the sector in 2010. Ontario accounted for over 40% of those payments, disbursing $286 million in salaries—more than any other province.[6]
- Figures from the Canadian Media Production Association's (CMPA) *Profile 2011* show that television production in Canada created an estimated 48,500 full-time equivalent jobs (FTEs) in Canada in 2010-11. Nineteen thousand, one hundred of these positions were direct jobs in television production, while 29,400 were indirect jobs created elsewhere in the Canadian economy.[7]

Production volume and budgets

- Ontario Media Development Corporation (OMDC) figures show that television producers spent $867.5 million filming in Ontario in calendar 2011 on television series, movies, mini-series, specials and pilots. Domestic television series production accounted for the majority of production activity in the province, for $626.7 million of the total expenditures. Foreign series also showed a strong increase from $119 million in 2010 to $150.2 million in 2011.[8]

Television Production in Ontario by Format, Domestic and Foreign, 2009-2011



Source: OMDC Production Statistics

- The CMPA's *Profile 2011* reports that Canadian television production remained the largest segment of the film and television production industry in 2010-11, accounting for 38% of the total volume of production and just over $2 billion. The increase of 1.9% to 8% for series production over the previous year is largely due to the resurgence of prime time Canadian drama. The increases in drama, as well as in lifestyle and factual programming, offset decreases in TV movies, mini-series and single-episode programming.[9]

- As indicated by OMDC's figures, Ontario experienced solid growth in television production in calendar 2011. CMPA's figures for fiscal 2010-11 show a 6.7% increase in domestic television production by Ontario-based producers, raising production volume for Canadian television in the province to $970 million or 47% of the national total. This enabled Ontario to maintain its position as the province with the highest volume of Canadian television production.[10]

Revenues and related figures

- In 2010, Canadian film, television and video production businesses reported $3.3 billion in operating revenues, reflecting an increase of 7.6% from 2009.Since operating expenditures rose similarly (7.9%) the industry's profit margins saw only a slight decrease, from 2.1 to 1.8% from 2009 levels, according to Statistics Canada. The majority of Canadian production revenues, 54%, were generated by television production, including both independent and broadcaster in-house production.[11]

- Statistics Canada figures also confirm that Ontario is central to the Canadian film and television production sector. In 2010, Ontario film, television and video production companies accounted for 51.7% of Canada's overall film and video production operating revenues, followed by Quebec at 27.9% and B.C. at 12.5%. These figures represent a 14% increase in the Ontario share of national revenues over 2009. Ontario film, television and video production companies earned $1.7 billion in operating revenues in 2010, which is an 18% increase over 2009, although following the national trend expenses also rose, resulting in a profit margin of 2.7%—a gain over 2009's 1.9%.[12]

- Figures from the Computer Animation Studios of Ontario (CASO) show that the computer animation and visual effects industry in Ontario is expanding, with a 17% annual compound growth rate. Between 2008 and 2010, revenues in Ontario for these industries grew from $97.4 to $156.3 million. The economic impact of these industries in 2010 in Ontario was $190 million.[13]

Trends and Issues

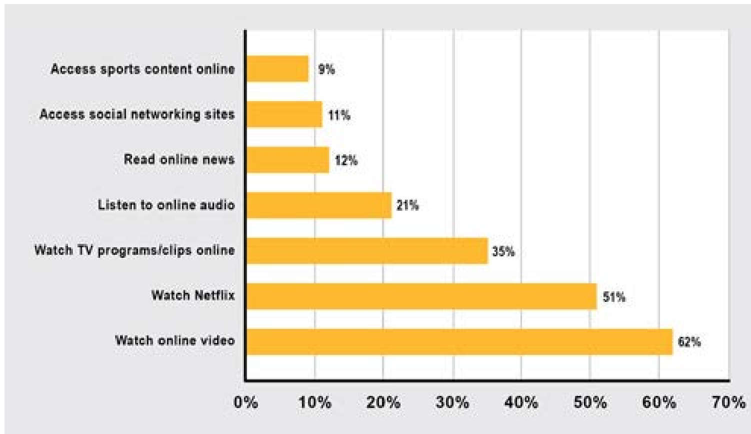
Growth rate and industry trends

- Spending on television subscriptions is set to slow globally, and broadcasters are challenged to seek other revenue sources. According to PricewaterhouseCoopers, the global market for television subscription spending (spending by consumers on basic and premium television channels offered by cable operators, satellite providers and phone companies) will increase at a 6.8% compound annual rate until 2016. However, competition from over-the-top services such as Netflix will limit subscription growth in households, and increased costs for content may be passed on to subscribers—which may help to offset revenue loss due to this downward growth trend. Until recently, the television subscription market was thought to be immune from fluctuations in the economic cycle, however, the weak global economy in the last few years has contributed to the slowdown in household subscription growth, and in the case of Canada in 2009, an actual decline in the number of subscriptions.[14]

- Newer modes of broadcast distribution in Canada have allowed entrants such as telephone companies access to the television market. The increased competition has prompted existing cable broadcast distributors to change how they package and market their offerings in order to better compete. These newer digital television offerings include Internet protocol television (IPTV) and wireless cable or MDS. In August and September 2011, cable services had a 62% share of the Canadian market, while direct-to-home (satellite) services had 30%; IPTV captured 8% of the market share. In the period of June/July to August/September 2011, Canadian household cable TV growth remained relatively flat (3%) while satellite declined less than 1%. The digital television offering with the highest growth in that time period was IPTV, with growth of 14%.[15]

- Media Technology Monitor reports that currently, 1 in 5 Canadians have Internet connected television sets, and 59% of these are Netflix subscribers. Among the main activities Canadians undertake with their Internet-connected television sets, watching online video content is number one (61%), followed by watching Netflix (51%), watching other TV programs/clips online (35%), and listening to online audio (21%). Fully 86% of Netflix users also subscribe to traditional television, suggesting that a Netflix subscription does not indicate lack of interest in traditional TV viewing. Overall, Netflix subscribers are heavy users of other TV content as well.[16]

Internet Activities of Canadians on a TV Set



Source: Media Technology Monitor, Internet TV Has Changed: The Rise of Netflix, p. 8

- A report by the Documentary Organization of Canada (DOC) has found that distribution of documentaries on digital services is only slightly disrupting traditional patterns of consumption. On average, viewership of a popular feature documentary on a television broadcaster web portal is 8,000 views over the course of a year, while the top-viewed episode of a documentary series captures nearly 60,000 views. This is in contrast to the viewership of the most popular documentaries on television, which draw around 900,000 viewers.[17]

Global and domestic issues

- A 2012 report by the CMPA examines the ways Canadian content producers can protect their ability to create and deliver Canadian content in the new era of "content anywhere, anytime". Recently, with a dramatic shift to video viewing there has been a concurrent increase in video offerings across many online platforms. Increasingly, viewers are demanding more professionally-produced, higher quality content in contrast to amateur or user-generated video. In Canada, where traditionally the cost of creating Canadian programming has been partly offset by tangible benefits paid by broadcasters, the disruption caused by viewers' ability to bypass the regulated system will have a major impact. An opportunity exists for Canadian television producers to deliver high-quality video content to the global marketplace through accessing online platforms.[18]

- Consolidation of the broadcasting industry in Canada is concentrating the entire value chain of production and distribution into the hands of a few companies. BCE, Shaw and Rogers control the majority of content and media assets, as well as the distribution methods into homes, in the country. However, a recent request to the CRTC by BCE to aquire Astral Media for $3.38 billion was denied on the grounds that the acquisition is not in the public interest. The regulator stated that the proposed merger would have concentrated significant market power in the hands of one of the country's largest media companies and raised substantial concerns related to healthy competition and concentration of ownership.[19]

- Market pressures and industry consolidation have wide-ranging effects on makers of documentary films in Ontario. Centennial College, working out of its Independent Television Producers' program, undertook a feasibility study to determine the need for a business incubator for independent documentary television producers in Ontario. Their research found that this group of producers are under considerable stress, in part due to the reduction of documentary commissioning by broadcasters, reduced bargaining power and a lack of working capital and affordable training and mentorship. Most of the producers that were surveyed for this research identified business education and strategies for incorporating interactive digital media as priority areas for their businesses.[20]

Government assistance[21]

- At the federal level, television producers currently have access to government funding through tax credits and the Canada Media Fund (CMF). In 2010-11, CMF funding accounted for $282 million, or 28% of the financing, for Canadian television production. Other financing contributed an additional $721 million.[22] In June 2011 the federal government announced ongoing funding support for the CMF, enabling the Fund to provide over $370 million to the television and digital media industry in 2011-12.[23]

- In November 2011, an OMDC delegation including ten Ontario screen-based producers led a trade mission to India, in partnership with Telefilm. The mission delegates travelled to Mumbai and Goa, to meet with Indian film industry leaders and encourage the forging of new relationships between Ontario and Indian filmmakers. Business-to-business meetings with Indian producers, executives and financiers were among the activities.[24]

- In 2012-13 Ontario television producers have access to provincial government funding through tax credits including the Ontario Film and Television Tax Credit, the Ontario Computer Animation and Special Effects Tax Credit and the Ontario Production Services Tax Credit. OMDC also provides funding to trade and event organizations in the production sector through the Industry Development Program for events and activities that stimulate the growth of the industry, and for producers to participate in export activities through the OMDC Export Fund – Film and Television.

- Through its Film Commission, OMDC markets the province as a preferred location for filming and provides complimentary location scouting and facilitation assistance to feature film producers, both domestic and service, who are considering Ontario for their productions. OMDC, through a financial partnership with the City of Toronto and with targeted marketing support provided by industry trade organization FilmOntario, maintains a full time marketing presence in Los Angeles. The office provides on-the-ground marketing to attract production to Ontario as well as support to Ontario screen-based content creators in accessing the L.A. marketplace. The L.A. office continues to make a significant contribution to Ontario's foreign production activity, building on 2011-12 results, when a total of 11 productions that received direct assistance through the office chose to shoot in Ontario, representing $183 million in economic activity.[25]

Profile current as of October 31, 2012

Endnotes

1 Women in Film and Television - Toronto (WIFT-T), *Frame Work II: Canada's Screen-based Workforce*, January 2012, p. 43.

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14 PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2012-2016*, pp. 178-181.

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18 CMPA, *Content Everywhere: Mapping the Digital Future for the Canadian Production Industry*, February 2012, pp. 5 and 34.

19 "CRTC to review Bell/Astral deal," www.cartt.ca, July 11, 2012; News Release, "CRTC denies BCE's bid to acquire Astral," www.crtc.gc.ca, October 18, 2012; CRTC, Broadcasting Decision CRTC 2012-574, October 18, 2012.

20 Centennial College, *Feasibility Study for a Screen-based Content Producers Business Incubator Program*, July 2012, pp. 2 and 12.

21 The information included in this section is an overview of some of the government assistance to the television sector. This is not intended to be a comprehensive list of government assistance available.

22 CMPA, *Profile 2011*,p. 46-48.

23 Press Release, "Canada Media Fund announces preliminary program budget and performance envelopes for 2011-2012, and creation of a new Convergent Stream Digital Media Incentive," CMF, March 31, 2011; Press Release, "Canada Media Fund Applauds the Government of Canada's announcement to support the CMF on an on-going basis," CMF, June 7, 2011.

24 OMDC press release, "OMDC Leads Ontario Producers in Mission to Boost Co-Production," www.omdc.on.ca, November 28, 2011.

25 OMDC, 2011-12 Internal Results.